

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
July 2, 2008 Through June 1, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
JACKSON COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
July 2, 2008 Through June 1, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Jackson County Sheriff for the period July 2, 2008 through June 1, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,944,363 for the districts for 2008 taxes, retaining commissions of \$121,552 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,818,782 to the districts for 2008 taxes. Taxes of \$3,006 are due to the districts from the Sheriff.

Report Comments:

2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

2008-02 The Sheriff Did Not Distribute Interest Earned On Tax Collections Monthly

Deposits:

The Sheriff's deposits as of October 31, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$800,544

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable William Smith, Jackson County Judge/Executive

Honorable Tim Fee, Jackson County Sheriff

Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the Jackson County Sheriff's Settlement - 2008 Taxes for the period July 2, 2008 through June 1, 2009. This tax settlement is the responsibility of the Jackson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Jackson County Sheriff's taxes charged, credited, and paid for the period July 2, 2008 through June 1, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable William Smith, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

2008-02 The Sheriff Did Not Distribute Interest Earned On Tax Collections Monthly

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 26, 2010

JACKSON COUNTY
TIM FEE, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period July 2, 2008 Through June 1, 2009

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 158,728	\$ 684,628	\$ 1,173,208	\$ 280,650
Tangible Personal Property	8,919	47,816	65,926	42,420
Fire Protection	1,512			
Franchise Taxes	44,538	228,919	327,410	
Additional Billings	212	1,005	1,546	383
Unmined Coal - 2008 Taxes	77	330	567	136
Oil and Gas Property Taxes	28	118	203	49
Limestone, Sand and Mineral Reserves	341	1,468	2,521	603
Penalties	2,205	9,448	16,147	3,961
Adjusted to Sheriff's Receipt	701	(8)	(12)	(11)
Gross Chargeable to Sheriff	217,261	973,724	1,587,516	328,191
<u>Credits</u>				
Exonerations	1,633	7,030	12,036	2,897
Discounts	2,472	11,084	18,028	3,979
Delinquents:				
Real Estate	6,406	27,529	47,032	11,253
Tangible Personal Property	39	206	284	162
Franchise Taxes	897	3,157	6,205	
Total Credits	11,447	49,006	83,585	18,291
Taxes Collected	205,814	924,718	1,503,931	309,900
Less: Commissions *	9,035	38,902	60,157	13,458
Taxes Due	196,779	885,816	1,443,774	296,442
Taxes Paid	196,502	884,551	1,441,764	295,965
Refunds (Current and Prior Year)	73	291	529	130
Due Districts		**		
as of Completion of Audit	\$ 204	\$ 974	\$ 1,481	\$ 347

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
TIM FEE, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES
For The Period July 2, 2008 Through June 1, 2009
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,271,017
4% on	\$	1,663,346

** Special Taxing Districts:

Library District	\$	494
Health District		130
Extension District		160
Soil Conservation District		32
Ambulance District		158

Due Districts	\$	<u>974</u>
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The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

June 1, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Jackson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 1, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 1, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of October 31, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$800,544

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2008 through June 1, 2009.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 11, 2009 through June 1, 2009.

C. Oil Taxes

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 18, 2008 through June 1, 2009.

D. Limestone, Sand, and Gravel Taxes

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2008 through June 1, 2009.

Note 4. Interest Income

The Jackson County Sheriff earned \$1,007 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of March 26, 2010, the Sheriff owed \$506 in interest to his fee account.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
June 1, 2009
(Continued)

Note 5. Sheriff's 10% Add-On Fee

The Jackson County Sheriff collected \$28,972 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of March 26, 2010, the Sheriff owed \$2,865 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Jackson County Sheriff collected \$1,995 of advertising costs and \$1,990 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff will distribute the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of March 26, 2010, the Sheriff owed \$1,995 in advertising costs to the county and \$1,990 in advertising fees to his fee account.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William Smith, Jackson County Judge/Executive
Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Jackson County Sheriff's Settlement - 2008 Taxes for the period July 2, 2008 through June 1, 2009, and have issued our report thereon dated March 26, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Jackson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Jackson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations, as item 2008-01, to be a significant deficiency in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's Settlement - 2008 Taxes for the period July 2, 2008 through June 1, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2008-02.

The Jackson County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Jackson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 26, 2010

COMMENTS AND RECOMMENDATIONS

JACKSON COUNTY
TIM FEE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period July 2, 2008 Through June 1, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties because the Sheriff's bookkeeper maintains the ledgers, deposits the collections, collects funds from customers and prepares checks. We recommend the Sheriff either segregate these duties or implement steps to strengthen internal controls, such as:

- The Sheriff should have an independent person periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger.
- The Sheriff should have an independent person compare the monthly financial report to receipts and disbursements ledgers for accuracy.
- The Sheriff should have an independent person periodically compare payments to the taxing districts.
- All disbursement checks to be signed by two people, one being the Sheriff.
- The Sheriff personally mail or deliver tax payments to districts.
- The Sheriff should have an independent person periodically compare the monthly bank reconciliation to the balance in the checkbook.

Sheriff's Response: If financial matters improve in the Sheriff's Office, we will hire extra help with these duties.

STATE LAWS AND REGULATIONS:

2008-02 The Sheriff Did Not Distribute Interest Earned On Tax Collections Monthly

KRS 134.140 requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140 also requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2008 tax collections, the Sheriff earned a total of \$1,007 in interest. The Sheriff paid \$510 to the school board at the end of the year, however, the Sheriff did not pay interest to the Jackson County Board of Education on a monthly basis as required. We recommend the Sheriff comply with KRS 134.140 by paying the amount of interest due to the school on a monthly basis.

Sheriff's Response: Will try to do on a monthly schedule.

